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HARVEY WOODS LIMITED ANNUAL REPORT 1975



 **JOCKEY®**

**Earnings** Your Directors submit herewith the Annual Report of the Consolidated Operations of your Company for the year ended December 31, 1975. The Net Income for the year of \$1,065,000 compares with Net Income of \$698,000 for 1974, after provision for depreciation of \$236,000 in 1975 and \$221,000 in 1974. Your attention is drawn to Note # 6 to the Consolidated Financial Statements as to income taxes payable.

**1975 Operations** Programmes implemented during the restructuring period of the past few years to increase productivity, improve efficiency of operation and cost controls, along with the redirection of marketing and sales objectives, have contributed greatly to the Company's performance in 1975. Income per share before extraordinary item is 30¢ (1974 - 15¢) and income per share after extraordinary item amounted to 40¢ in 1975 (1974 - 26¢).

**1976 Prospects** Increased distribution and sales of both Harvey Woods and Jockey underwear and hosiery will be supported by national advertising in major markets across Canada. The need for greater manufacturing capacity in both hosiery and underwear divisions to meet future increased sales forecasts will require an enlarged capital expenditure allocation for 1976 of \$500,000 of which \$400,000 will be spent on production equipment and the balance for elevator renovations and minor items.

It is too early to determine the effect the Federal Government's Anti-Inflation Legislation will have on your Company's general operations. It is known nevertheless that higher material and labour costs will be incurred.

**Long Term Debt** Details of the long term debt are outlined in the notes to the Consolidated Financial Statements.

**Working Capital** Working capital increased \$823,000 in the year and at December 31, 1975 stood at \$3,790,000. Details of the source and application of funds are shown in the Consolidated Statement of Working Capital.

**Subsidiaries** Thomson Research Associates Limited recorded increased sales and earnings in 1975 despite a softening of many export markets. The recent improvement in the economy of the United States should result in the return of the growing market for Steri-Septic there.

Production from the Kroy Unshrinkable Wools Limited new machine for the shrink-proofing of wool is completely satisfactory and license agreements with both domestic and foreign companies are being negotiated. The Federal Government is continuing its encouraging interest and financial support to the subsidiaries' various research and development projects through I.R.A.P., P.A.I.T. and P.E.M.D. programmes.

**Change in Share Capital** There are still a number of shareholders who have not submitted their shares in exchange for new common shares. We strongly advise you to do so through our transfer agent, The Royal Trust Company, according to the instructions forwarded to you last year when the Arrangement for the Reorganization of the Capital Structure was approved.

**General** We would like to express our appreciation to all Harvey Woods and Subsidiary Companies' employees for their support and co-operation. It is only through them and their individual contribution that the Company's continued progress can be realized.

#### To the Shareholders of Harvey Woods Limited

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson Gordon & Co.  
Chartered Accountants

London, Canada  
February 13, 1976

On Behalf of the Board of Directors  
J. D. Woods, Chairman.  
R. W. Meeke, President.

March 12, 1976  
Toronto, Ontario



**HARVEY WOODS LIMITED**  
 (Incorporated under the laws of Ontario)  
 and subsidiary companies

CONSOLIDATED BALANCE SHEET (as at December 31)		(in thousands of dollars)	
ASSETS	1975	1974	
Current:			
Cash	\$ 3	\$ 2	
Accounts receivable	2,662	1,896	
Inventories (note 2)	4,737	4,932	
Prepaid expenses	79	115	
Total current assets	7,481	6,945	
Fixed:			
Land	40	40	
Buildings	1,142	1,046	
Equipment	3,499	3,358	
	4,681	4,444	
Less accumulated depreciation	3,381	3,192	
Total fixed assets	1,300	1,252	
Total	\$8,781	\$8,197	

On behalf of the Board                      Roland W. Meeke, Director — John A. Young, Director

(See accompanying notes)

		(in thousands of dollars)	
LIABILITIES AND SHAREHOLDERS' EQUITY	1975	1974	
Current:			
Due to bankers - demand loan (note 3)	\$1,273	\$2,471	
Accounts payable and accrued charges	1,847	1,251	
Taxes payable	382	70	
Portion of long term debt due within one year	189	186	
Total current liabilities	3,691	3,978	
Long term debt (note 4)	1,186	1,376	
Deferred taxes	1	4	
Minority shareholders' interest	13	14	
Shareholders' equity:			
Capital (note 5) —			
Authorized:			
3,500,000 common shares without par value			
Issued and fully paid:			
2,677,072 common	1,938	1,938	
Retained earnings (statement 2)	1,952	887	
	3,890	2,825	
	\$8,781	\$8,197	

(in thousands of dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY	1975	1974
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Shareholders' equity:		
Capital (note 5) —		
Authorized:		
3,500,000 common shares without par value		
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2,677,072 common	1,938	1,938
Retained earnings (statement 2)	1,952	887
	3,890	2,825
	\$8,781	\$8,197



**CONSOLIDATED STATEMENT OF INCOME** (year ended December 31)

(in thousands of dollars)

	1975	1974
Sales	\$15,563	\$13,280
Expenses:		
Cost of Sales	10,166	9,346
Marketing, general administration and shipping expenses	3,389	2,481
Depreciation	236	221
Interest - Long term debt	141	154
Other	264	374
	14,196	12,576
Operating income	1,367	704
Minority interest in income of subsidiary company	4	3
Income before income taxes and extraordinary item	1,363	701
Income taxes (note 6) - current	570	300
- deferred	(3)	
	567	300
Income before extraordinary item	796	401
Extraordinary item:		
Reduction in income taxes, resulting from application of prior years' losses	269	297
Net income	\$ 1,065	\$ 698
Income per share before extraordinary item	\$ .30	\$ .15
Income per share after extraordinary item	\$ .40	\$ .26

(See accompanying notes)

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS** (year ended December 31)

(in thousands of dollars)

	1975	1974
Balance, beginning of year	\$ 887	\$189
Net income	1,065	698
Balance, end of year	\$1,952	\$887

(See accompanying notes)



**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION** (year ended December 31) (in thousands of dollars)

	1975	1974
Source of working capital:		
Operations —		
Net income	\$ 796	\$ 401
Depreciation	236	221
Minority interest in earnings of subsidiary	4	3
Decrease in deferred income taxes	(3)	
	1,033	625
Extraordinary item	269	297
Increase in long term debt		321
Sale of fixed assets	6	
	1,308	1,243
Application of working capital:		
Reduction in long term debt	190	186
Purchase of fixed assets	290	464
Dividends paid to minority shareholders of subsidiary	5	5
	485	655
Increase in working capital	823	588
Working capital, beginning of year	2,967	2,379
Working capital, end of year	\$3,790	\$2,967

(See accompanying notes)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies**

(a) Principles of consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, Thomson Research Associates Limited, Kroy Unshrinkable Wools Limited, Kroy Inc. and York Knitting Mills (1966) Limited. All material intercompany accounts and transactions have been eliminated.

(b) Inventories

Inventories are stated at the lower of cost and market. Cost is computed using currently adjusted standards which approximate actual costs on a first-in, first-out basis. Market value is defined as follows:

Raw materials — replacement cost

Work in process and finished goods — net realizable value

(c) Fixed assets

Fixed assets are stated at historical cost. Depreciation is provided on a diminishing balance basis at rates which amortize the cost over their estimated useful life, as follows:

Buildings — 5%

Equipment —20%

**2. Inventories**

	1975	1974
Finished goods	\$2,484,000	\$2,952,000
Work in process	1,193,000	888,000
Raw material and supplies	1,060,000	1,092,000
	\$4,737,000	\$4,932,000



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

### 3. Bank indebtedness

As at December 31, 1975, bank indebtedness amounted to \$1,273,000 by way of a demand loan and \$839,905 in term loans as described in note 4. The company has pledged its accounts receivable and inventories as security and has also issued demand debentures totalling \$4,500,000 secured by fixed and floating charges ranking subsequent to the security given under mortgages described in note 4.

Under the terms of the security, the company cannot pay dividends without the prior approval of the debenture holder. In any event, any such dividend would be restricted, under the Anit-Inflation Act, during the year ending October 13, 1976 to an amount not exceeding .04¢ per share.

### 4. Long term debt

Bank term loans —	1975	1974
(i) bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly principal instalments of \$7,060, to April, 1982, and insured as to the repayment to the extent of 90% by the General Adjustment Assistance Board (GAAB)	\$ 536,560	\$ 621,280
(ii) bearing interest at a rate of 1½% above the bank's prime rate, repayable in equal monthly instalments of \$1,605, to May 1983, insured by GAAB as to repayment to the extent of 90% and secured by a chattel mortgage on certain equipment	142,845	160,500
(iii) bearing interest at 10%, repayable after the other term loans have been fully repaid.	160,500	160,500
	839,905	942,280
<b>Other</b>		
(i) 8½% first mortgage bonds, issued to the company's bankers, secured by a first mortgage on the company's lands, buildings, machinery and equipment and a first floating charge on its other assets, repayable by monthly instalments of \$2,900 plus interest	192,300	227,100
(ii) 8½% second mortgage, to the Ontario Development Corporation, secured by a second mortgage on the company's lands, buildings, machinery and equipment and a second floating charge on its other assets, repayable by monthly blended payments of principal and interest of approximately \$6,400, maturing July, 1981.	343,427	389,789
(iii) Lease purchase agreement		3,000
	1,375,632	1,562,169
Less portion due within one year included in current liabilities	189,167	186,537
	\$1,186,465	\$1,375,632

Principal repayments in the years 1976 to 1980 are \$189,167, \$193,541, \$198,294, \$203,460 and \$209,075 respectively.

### 5. Share capital

During the year the share capital was reorganized as follows:	Number of old shares	Conversion rate	Number of new common shares
Class A	329,512	6 for 1	1,977,072
Class B	700,000	1 for 1	700,000
Issued share capital			2,677,072
Additional shares authorized			822,928
Authorized common shares without par value, 1975			3,500,000

The unissued Class A shares were cancelled and the rights to dividends in arrears for the issued Class A shares were terminated.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

### 6. Income taxes

Taxes on income for the year ended December 31, 1975 in the amount of \$567,000 have been reduced by \$269,000 by the application of losses incurred in previous years.

### 7. Remuneration of directors and senior officers

Aggregate direct remuneration paid by the companies during 1975 to directors and senior officers as defined by Section 125 of The Business Corporations Act amounted to \$306,000 (1974 – \$233,000).

### 8. Anti-Inflation program

Effective October 14, 1975 the Federal Government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the company is subject to mandatory compliances with controls on prices, profit margins, employee compensation and shareholder dividends. The future effects on the company of the Regulations on prices, profit margins and employee compensation are not yet clear owing to uncertainties as to interpretation and the need to develop appropriate data from the company's records.

## FIVE YEAR FINANCIAL REVIEW (in thousands of dollars)

	1975	1974	1973	1972	1971
Operating results:					
Sales	\$15,563	\$13,280	\$10,986	\$10,867	\$11,349
Income (loss) before extraordinary items	796	401	213	(261)	(192)
Net Income (loss)	1,065	698	343	(261)	(192)
Financial position:					
Working capital	3,790	2,967	2,379	1,434	2,146
Total assets	8,781	8,197	7,579	7,062	7,089
Long term debt	1,375	1,562	1,414	1,499	1,602
Shareholders' equity	3,890	2,825	2,127	1,784	2,045
Capital expenditures	290	464	91	108	71
Income (loss) per share:					
— before extraordinary items	.30	.15	.08	(.10)	(.07)
— after extraordinary items	.40	.26	.13	(.10)	(.07)

### Footnote:

Income per share figures have been calculated and adjusted on the basis of common shares now issued according to the arrangement effected in 1975 for changes in the capital structure.



**Directors**

W. D. Bean  
G. D. Birks  
N. H. Cruickshank  
R. W. Meeke  
J. W. Walker Q.C.  
J. D. Woods  
John A. Young

**Officers**

J. D. Woods  
Chairman of the Board  
R. W. Meeke  
President  
John A. Young  
Vice President and Secretary-Treasurer

**Head Office**

18 Vansittart Avenue, Woodstock, Ontario

**Sales Executive Offices**

Harvey Woods Division - 74 Victoria Street, Suite 625, Toronto, Ontario  
Jockey Division - 74 Victoria Street, Suite 621, Toronto, Ontario

**Transfer Agents**

The Royal Trust Company

**Auditors**

Clarkson, Gordon & Co.

**Bankers**

The Toronto-Dominion Bank

**Counsel**

McCarthy & McCarthy

**Operating Locations**

Toronto: Kroy Unshrinkable Wools Limited  
Thomson Research Associates Limited  
Woodstock: Hosiery Division, Underwear Division

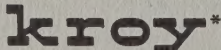
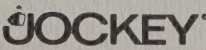
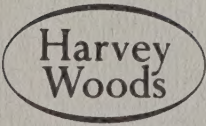
**Branch Sales Offices**

Vancouver – Edmonton – Winnipeg – Toronto – Montreal – Quebec

**Products**

Hosiery – Underwear – Lingerie – Sweaters – Sportswear

**Registered Trade Marks**



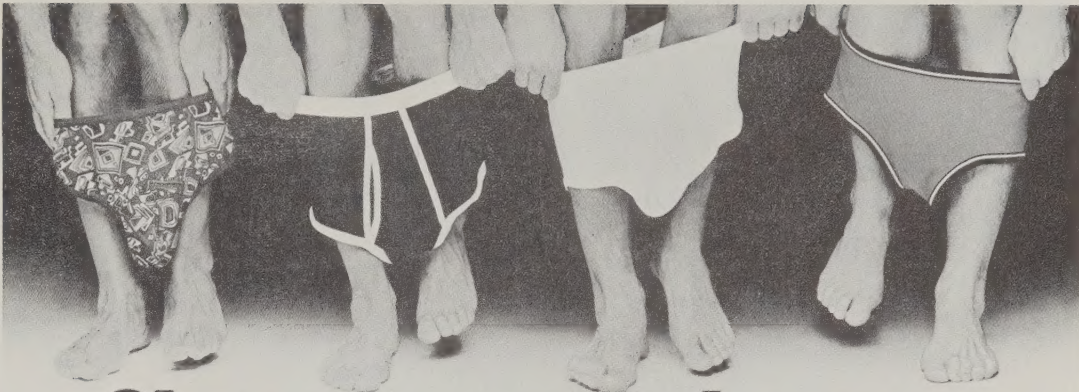


Advertising 1975-1976

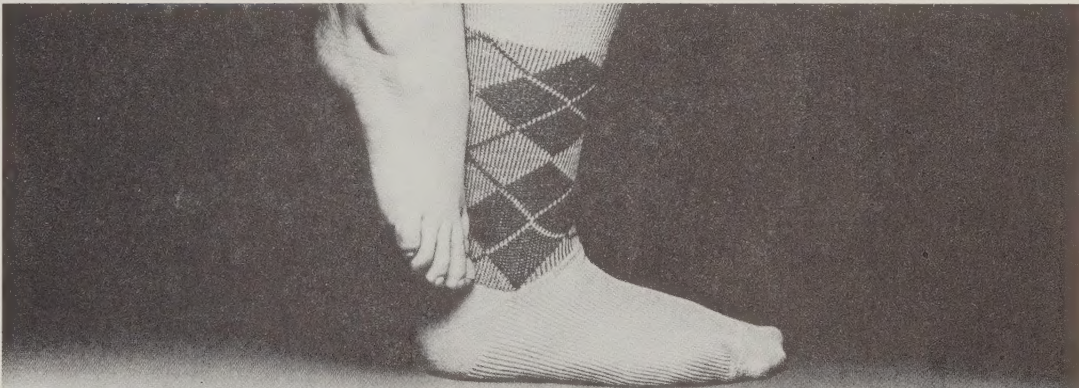
In 1975, your Company began an aggressive long-term programme of coast-to-coast advertising for Harvey Woods and Jockey brands. Overall objectives of the advertising include strengthening the brands' quality and style image among consumers, and demonstrating to our all-important hosiery and underwear retailers the Company's willingness to support them with sales-stimulating advertising and promotion.

These tasks are being achieved with the use of two full-colour outdoor billboards which appeared across Canada during the autumn of 1975 and winter and early spring of 1976, featuring Harvey Woods hosiery and underwear.

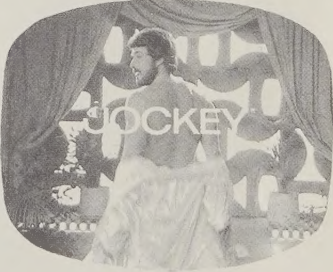
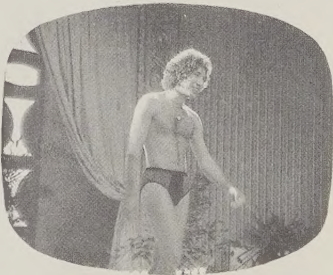
For Jockey brand underwear, an attention-getting television commercial will be seen in more than 2.5 million households in major cities across Canada for eight weeks during the late winter and early spring of 1976.



**Change your underwear.**  
**Harvey Woods. The tops in bottoms.**



**Harvey Woods has socks appeal.**



**The Kroy process:**  
what it is.

Kroy wool is a special type of wool that has been treated with a special process called the Kroy process. This process makes the wool shrinkproof and completely machine washable. It is a process that has been developed by the Kroy Company, and it is the only process of its kind in the world.

When there's a Kroy tag on your wool garments, they're unshrinkable.

**You don't have to take our word for it.**

A four-colour brochure was widely distributed both domestically and overseas, re-emphasizing the features of Kroy wool. Kroy is a process that makes wool shrinkproof and completely machine washable.



